MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

PEM0034 – ESSENTIALS OF MACROECONOMICS

10th JULY 2023
9.00 a.m. to 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT** (8) pages including the cover page with **THIRTY (30)** Multiple Choice Questions (MCQs) and **TWO (2)** Structured Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet and OMR Sheet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (60 MARKS)

1. _____ occurs when aggregate demand increases and pulls prices up.
   A. Cost-pull inflation
   B. Cost-push inflation
   C. Demand-pull inflation
   D. Demand-push inflation

2. Which of the following group will suffer during inflation?
   A. Savers.
   B. Lenders.
   C. None of the above.
   D. All of the above.

3. Which of the following statements is **TRUE** about the effects of inflation?
   A. Inflation causes holders of fixed deposits in banks to gain more income.
   B. Inflation has a more adverse impact if anticipated rather than unanticipated.
   C. Inflation causes the cost of living to be decreased.
   D. Creditors who have loaned money at interest rates below the rate of inflation will suffer economic losses.

4. The government should _____ to reduce or close an inflationary gap.
   A. decrease taxes
   B. increase government spending
   C. implement budget surplus
   D. All of the above.

5. Demand-pull inflation is caused by the following except _____.
   A. increase in wages
   B. increase in exports
   C. increase in investment
   D. increase in government expenditure

6. What is the term for a situation in which a person is overqualified for the job he has?
   A. Partial employment.
   B. Low-skilled work.
   C. Underemployment.
   D. Discourage worker.

Continued...

7. What can happen to the economy if the level of unemployment is very low?
   A. It can make it difficult for some to find jobs.
   B. It can create a booming economy.
   C. It can cause wages and prices to rise.
   D. It does not have a predictable effect.

8. All of the following statements are true, **EXCEPT** _____.
   A. Frictional unemployment occurs when workers are between jobs
   B. Structural unemployment occurs as a result of changing production methods
   C. Seasonal unemployment occurs because trade unions negotiate for higher wages
   D. Cyclical unemployment is serious unemployment, leading to a lack of aggregate demand in a recession

9. Assuming the total population is 100 million, the civilian labor force is 50 million, and 47 million workers are employed, the unemployment rate is _____. _
   A. 3%
   B. 6%
   C. 7%
   D. 9%

10. Cyclical unemployment exists because some workers _____.
   A. lack of soft skills
   B. quit jobs to look for better jobs
   C. have lost their jobs, due to technical factors
   D. have lost their jobs during a downswing in the economy

11. An unemployed person is said to be structurally unemployed if _____.
   A. he lacks job skills.
   B. he has lost his job during a recession.
   C. he has quit his job to look for another job.
   D. he has lost his job due to seasonal factors.

12. The main reason why one nation trades with another is to _____.
   A. develop political alliances
   B. achieve the gains of specialization
   C. save its natural resources from rapid exhaustion
   D. abolish the danger of retaliation from other nations

13. Which of the following statements is true about quota?
   A. Total ban on imported goods.
   B. Government subsidies on exported goods.
   C. A limit on the number of imported products.
   D. Exchange control on the sale of foreign currencies.

Continued...

14. Which of the following is not included in the current account balance?
    a. Net income.
    b. Current transfer.
    c. Financial account.
    d. Balance of goods and services.

15. An economy with foreign trade is known as _____.
    A. a closed economy
    B. an open economy
    C. a planned economy
    D. a laissez faire economy

16. International trade is different from domestic trade _____.
    A. because the size of the market is relatively bigger for international trade
    B. because of the usage of different units of currency in international trade
    C. because they are focused internationally rather than domestically
    D. All of the above

17. Given the same amount of resources, if a country can produce more of a particular commodity as compared to another country, this country is said to have _____.
    A. a mutual advantage
    B. an absolute advantage
    C. a productive advantage
    D. a comparative advantage

18. The ability to produce a good at a lower opportunity cost than others are called _____.
    A. mutual advantage
    B. absolute advantage
    C. productive advantage
    D. comparative advantage

Country/Product	Guns	Buns
U.S	120	180
Russia	100	60

Exhibit 1

19. Refer to **Exhibit 1**, and calculate the opportunity cost to produce one unit of gun and one unit of bun for the U.S. _____.
    A. 1.5 guns and 0.67 buns.
    B. 0.6 guns and 1.67 buns.
    C. 1.6 guns and 0.63 guns.
    D. 0.5 guns and 2.0 buns.

Continued...

20. Refer to **Exhibit 1.** Which country should specialize in the production of buns based on the principles of comparative advantage?
    A. United States.
    B. Russia.
    C. United States and Russia.
    D. Neither.

21. _____ is a market for converting the currency of one country into another country's currency.
    A. Financial barter
    B. Foreign exchange
    C. Monetary replacement
    D. Cross-cultural interchange

22. The _____ is the lubricant that enables companies based in countries that use different currencies to trade with each other.
    A. World Bank
    B. foreign monetary mart
    C. foreign exchange market
    D. foreign currency exchange

23. Any transaction that causes foreign exchange to leave a country is a _____.
    A. credit item in that country's balance of trade
    B. debit item in that country's balance of payments
    C. credit item in that country's balance of payments
    D. debit item in that country's balance of trade

24. The balance of payments is divided into two major accounts, the _____.
    A. current account and trading account.
    B. current account and the capital account.
    C. current account and the reserve account.
    D. trade account and the capital account.

Continued...

Refer to the information provided in **Exhibit 2** below to answer the question(s) that follow.

Exhibit 2

Mexico		Guatemala	
Oranges bushel/acre	Bananas bushel/acre	Oranges bushel/acre	Bananas bushel/acre
200	0	50	0
160	40	40	20
120	80	30	40
80	120	20	60
40	160	10	80
0	200	0	100

25. Refer to **Exhibit 2**. In Mexico, the opportunity cost of 1 bushel of bananas is _____.
    A. 1/2 bushel of oranges.
    B. 1 bushels of oranges.
    C. 2 bushel of oranges.
    D. 5 bushels of oranges.

26. Refer to **Exhibit 2**. In Guatemala, the opportunity cost of 1 bushel of oranges is _____.
    A. 1/2 bushel of bananas.
    B. 1 bushel of bananas.
    C. 2 bushel of bananas.
    D. 4 bushels of bananas.

27. When trade is free, patterns of trade and trade flows result from _____.
    A. the collective decisions of a few importers and exporters, as well as the governments of the countries in which they reside
    B. the collective decisions of a few importers and exporters, as well as millions of private households and firms
    C. the independent decisions of thousands of importers and exporters, as well as millions of private households and firms
    D. the independent decisions of thousands of importers and exporters, as well as the governments of the countries in which they reside

Continued...

28. For any pair of countries, there is _____.
    A. a range of exchange rates that can lead automatically to both countries realising the gains from specialization and comparative advantage
    B. one single exchange rate that will lead indirectly to one country realising the gains from specialisation and comparative advantage, but not the other country
    C. a range of exchange rates that can lead indirectly to one country realising the gains from specialisation and comparative advantage, but not the other country
    D. one single exchange rate that will lead automatically to both countries realising the gains from specialisation and comparative advantage

29. The theory of _____ is credited to David Ricardo.
    A. supply and demand
    B. comparative advantage
    C. national trade protection
    D. marginal production

30. The United States would have an absolute advantage compared to Canada in the production of wheat if _____.
    A. wheat sells for a higher price in the United States than in Canada
    B. the demand for wheat is higher in the United States than in Canada
    C. the United States uses fewer resources to produce wheat than Canada does
    D. wheat can be produced at a lower cost in terms of other goods than it could be in Canada

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SECTION B: STRUCTURED QUESTIONS (40 MARKS)

Question 1 (20 marks)

a) Illustrate what underemployment means by providing an example or an appropriate scenario. (4 marks)

b) Classify the difference between underemployment and unemployment? (4 marks)

c) Distinguish three types of unemployment with an appropriate example for each type. (12 marks)

Question 2 (20 marks)

a) The table below refers to the output that can be produced by Country ABC and XYZ.

Country	Radio (unit)	Television (unit)
ABC	500	300
XYZ	400	300

Assume the resources are divided equally between the two productions.

i) Discover which country has the absolute advantage in producing radio and television respectively. (2 marks)

ii) Find the opportunity cost of producing one radio and one television by each country. (2 marks)

iii) Discuss comparative advantage and state which country has the comparative advantage in producing radio and television respectively. (4 marks)

b) Briefly explain the difference between revenue tariff and protective tariff. (4 marks)

c) Compare between:

i) Currency appreciation and currency depreciation. (4 marks)
ii) Flexible and fixed exchange rates. (4 marks)

End of page.